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UNCLAS SECTION 01 OF 02 MEXICO 007015

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TREASURY FOR IA (ALICE FAIBISHENKO)
DOE FOR INTERNATIONAL AFFAIRS KDEUTSCH AND SLADISLAW
STATE PASS TO USTR (EISSENSTAT/MELLE)
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NSC FOR DAN FISK, CYNTHIA PENDLETON

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SUBJECT: SENIOR CONGRESSIONAL STAFFER DISCUSSES MEXICAN
BUDGET, FISCAL REFORM

Summary and Introduction

¶1. (SBU) Finance Secretary Agustin Carstens for weeks has highlighted publicly the need for fiscal reform in Mexico. At a recent conference in Mexico City, he said that Mexico needs to implement a broad fiscal reform to confront growing pension liabilities, rising payments on financed investment projects, over-reliance on income from the state-run oil company, and growing social spending needs. He added that only Guatemala has a lower tax collection rate than Mexico in Latin America, and that without reforms, Mexico's fiscal deficit could reach 3 percent of GDP by 2012. A top staffer of the Chamber of Deputies Finance Committee told econoffs that the legislature should start discussing the general outline of a fiscal reform package in January 2007. He said that the words "fiscal reform" have been used for so long that people do not know exactly what they mean. He stressed that fiscal reform will be a gradual and continuous process in Mexico. He believed the most important goal of any fiscal reform should be increasing the number of taxpayers. Regarding the 2007 federal budget, he assured econoffs that the discriminatory 20-percent tax on beverages sweetened with anything other than cane sugar would be eliminated. He said that Carstens is a "natural negotiator" who "sits down with everyone at the table as equals." A short biographic note on the contact is included. End Summary.

Senior Staffer Calls for a "Realistic" Fiscal Reform

¶2. (SBU) Econoffs on December 19 met with Jose Gildardo Lopez Tijerina (strictly protect), a top staffer (Secretario Tecnico) of the Chamber of Deputies Finance Committee, to discuss fiscal reform and the 2007 federal budget. Lopez Tijerina began the discussion about fiscal reform by saying that he expects the legislature to start considering a

general outline of a fiscal reform package in January 2007. That said, he noted how he and other Mexicans have heard the words "fiscal reform" for so long that no one knows exactly what they mean. He opined that fiscal reform in Mexico will be a gradual, continuous process, not something that is done at all at once. While stressing the need for fiscal reform, he said that any such reform has to be "realistic."

13. (SBU) In his opinion, the most important goal of any fiscal reform should be increasing the number of taxpayers. He said that Mexico has 43 million economically active people, but that only 12 million pay taxes. Lopez Tijerina said that one way to increase tax collection is to tax consumption -- as Calderon's 2007 budget proposal attempts to do with the new 5-percent tax on soft drinks. Lopez Tijerina assured econoffs that, regardless of the final level of the soft drink tax, the discriminatory 20-percent tax on beverages sweetened with anything other than cane sugar would be repealed, in keeping with Mexico's WTO obligations. He added that Mexico has to learn to compete in the global economy without trade barriers. (Note: the lower house on December 18 approved the elimination of the discriminatory 20-percent beverage tax when it ratified the income side of the federal budget package. The Senate approved this bill on December 20, but reserved the right to make changes to certain parts of it. End Note.)

14. (SBU) Lopez Tijerina outlined other key aspects of a fiscal reform, such as the need to reduce corruption, particularly in customs, and to improve enforcement in order to reduce tax evasion -- something he said many Mexicans see as a game with no serious consequences. He said Mexico also should review its special tax regimes and exemptions, noting

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that some industries no longer require tax exemptions to be profitable. He stressed how Mexico needs to reduce its dependence on oil revenues, adding that oil-related products account for 37-38% of government revenues. He believes that Mexico should review its "nationalistic approach" to the oil industry, implying that he favors at least a partial opening this sector to private investment. Lopez Tijerina noted that current tax laws favor taxpayers over tax collection, and he emphasized how adjusting taxes is difficult because every time you touch a particular tax, "someone screams."

Comment

15. (SBU) Fiscal reform is indeed key to Mexico's ability to keep its fiscal house in order, as the government cannot continue relying on volatile oil revenues to make up for its poor performance collecting taxes. Fiscal reform also will allow the government to dedicate more resources to such key issues as public security, poverty reduction, and education.

16. (SBU) The smooth passage of the bill in the Chamber of Deputies is a positive, early signal that Calderon may have an easier time negotiating a broad fiscal reform with Congress than his predecessor. Indeed, legislators from all political parties agreed to start examining a fiscal reform in January.

Bio Note on Agustin Carstens

17. (SBU) While discussing the quick approval of the income side of the federal budget in the Chamber of Deputies, Lopez Tijerina told econoffs that Finance Secretary Agustin Carstens is a "natural negotiator." He appeared to respect how Carstens "sits down with everyone at the table as equals." He also noted how the Finance Secretariat under Carstens' leadership was good at "coming to them" to explain its proposals.

Bio Note on Jose Lopez Tijerina

¶18. (U) Lopez Tijerina (PRI) is an academic, economist, and a specialist on fiscal issues from the National Autonomous University of Mexico. He has written several books on fiscal issues, and previously was an advisor on the Finance Committee under Jorge Chavez Presa.

¶19. (SBU) Lopez Tijerina told econoffs that he spent part of his childhood in San Antonio, Texas, and that the immigration issue was not nearly so controversial at that time. He said that during a past visit to Chicago, he was struck by how the city's large Mexican population made it "feel like Mexico City." He told econoffs that Mexico needs to create jobs to keep its citizens from moving to the U.S. He added that, as someone working in the legislative branch, he fully agrees that Washington has every right to regulate immigration.

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